

Weekly Money Market Report

28 July 2019



IMF lowers global growth forecast amid dovish central banks

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- IMF prediction for global economic growth lowered once again
- US GDP beats expectations
- Dovish ECB sends signals of lower interest rates
- Newly elected UK prime minister promises to drag the UK out of the EU “do or die”
- Oil prices rise by tensions in the Gulf

The International Monetary Fund trimmed its forecast for global economic growth once again as the US-China trade war deepens, Brexit concerns linger and inflation remains muted. The global economy is expected to expand by 3.2% in 2019, 0.1% lower than its April forecast and 0.3% lower than the fund's estimate at the start of this year. The IMF pointed to the 0.5% decline in global trade volume year-over-year in the first quarter of 2019, which to an extent reflects the current trade tensions. Back in May, China and the US hiked tariffs on billions worth of dollars of each other's goods, causing a dampening outlook for global economic growth and corporate profits as some companies move their supply chains out of China to avoid tariffs. Additionally, the UK's exit from the European Union scheduled on October 31st is weighing heavily on sentiment as a disorderly Brexit will likely result in chaos. Looking at inflation, developed economies like the US, Europe, and Japan remain below their targets, leading major central banks to maintain their historically low interest rate.

United States

Growth slows but tops economists' expectations

US economic growth slowed in the second quarter of 2019, though still exceeded expectations mainly due to solid consumer and government spending. Gross domestic product increased 2.1% on an annualized basis in the second quarter ending June. Investors have received positive data in the last few weeks including rebounds in the labor market, retail sales, and durable goods orders. However, markets are still heavily betting that the Federal Reserve will ease monetary policy at its meeting this week. Investors are pricing in an 83.5% chance of a 25 basis-points cut from the Fed at the July 31st meeting.

US durable goods orders surge in June

Orders for durable goods (those meant to last 3 years or more) rose 2% in June to \$246bn, its strongest increase since August of 2018. The figure marked a recovery from May's 2.3% decline and April's 1.3% drop, which represented the first back-to-back declines in a year. Still, this is unlikely to change expectations that business investment contracted further in the second quarter and contributed to holding back the economy. Business investment and housing have been highlighted by the Federal Reserve as areas of weakness to the US economy, as Fed Chairman Jerome Powell described business investment as appearing to have “slowed notably” and said this might “reflect concerns about trade tensions and slower growth in the global economy.”

Market reaction to the data was generally muted. The yield on the 10-year Treasury note initially rose indicating a fall in price, though later subdued. The more sensitive 2-year yield rose 3 basis points before falling as well. The US dollar index pushed higher post-release against a basket of currencies, continuing its recent rally and going back towards its over 2-year high of 98.37 seen in May. The euro sunk to a YTD

low of 1.1100 last week, while on Thursday the sterling broke the 1.24 level and also hit its low for 2019 at 1.2374.

US stocks dip below record highs

While corporate earnings have been broadly positive for stocks, worries still linger over trade and a slowing global economy. Facebook raked in more revenue and users in the last quarter, Tesla sold a record number of electric cars, though Amazon posted lower than expected earnings. Google's parent company Alphabet reported revenue beating Wall Street expectations at \$31.7bn versus analysts expected \$30.8bn. Google's advertising sales grew 16% overall, slower than recent periods though was a relief from the disappointing Q1 of 2019 figures when the company missed Wall Street's expectations and saw a plunge in its share prices.

Stocks were mixed on Friday as investors weighed the latest batch of corporate earnings and shifted attention to next week's Federal Reserve interest-rate decision. The Stoxx Europe 600 Index was little changed as media shares rose and retail firms struggled. The MSCI Emerging Market Index declined 0.4%, the lowest drop in more than two weeks. On Wall Street, the S&P 500 nudged lower though recovered and is now trading at its all-time record high of 3,025.86. The index is up around 22% since the beginning of 2019.

Europe

ECB modifies its direction

The European Central Bank is shifting its direction just months after officials ended the quantitative easing program and started preparing to exit the extraordinary stimulus. The bank sent signals of lower interest rates and renewed asset purchases in support of the euro-area economy in their policy statement on Thursday, leaving open the possibility of a September cut in the deposit rate from its current record low of -0.4%. It is widely predicted that the central bank will wait until September's meeting before adding stimulus, allowing time to see the Fed's decision before updating the ECB's economic projections. Draghi's push comes just three months prior to the end of his eight year term in which he will hand over the position to former International Monetary Fund Chief, Christine Lagarde. Other central banks are similarly turning dovish amid slackening global growth with the Federal Reserve expected to cut rates this week.

Amid an economic slowdown in the euro-area that has pushed inflation further below its 2% goal at 1.3%, a shrinking manufacturing sector, and risks such as global trade tensions still evident; the ECB's decision to tweak its forward guidance is understandable. Industrial demand and production are falling as suppliers battle slowing demand from China. German manufacturing is currently in its deepest decline in seven years and the economy is facing the risk of a recession. The now over 1-year long US-China trade conflict and the possibility of a chaotic Brexit are geopolitical factors currently weighing on the euro-zone as well.

UK

"They call him Britain Trump. That's a good thing."

In a ballot of party members, Boris Johnson has been elected to take over from Theresa May and become the next UK prime minister. He beat Jeremy Hunt with no trouble, winning 92,153 votes to Hunt's 46,656. In his victory speech, Johnson promised he would "deliver Brexit, unite the country and defeat Jeremy Corbyn". In Washington, Trump said "a really good man is going to be the prime minister of the UK now," and Mr Johnson would "get it done", in reference to Brexit. He added, "They call him Britain Trump. That's a good thing."

A number of senior officials have voiced their disapproval of the newly elected prime minister, citing their opposition to his Brexit stance. Johnson has pledged that the UK will leave the EU on October 31st "do or die", appearing to accept that a no-deal exit will happen if a new agreement is not reached. Johnson had previously criticized May's agreement with the EU, calling it "dead" as it had been rejected

three times by MPs. EU Commission's Brexit negotiator Michel Barnier initially said he was looking forward "to facilitate the ratification of the withdrawal agreement and achieve an orderly Brexit". More recently, Boris Johnson was accused by the EU's chief Brexit negotiator of laying down "unacceptable" terms in reference to Johnson's speech at the House of Commons. He added that the "rather combative speech" raised the risk of a no-deal Brexit, and urged the 27 EU member states to soften the tone.

Commodities

Tensions in the Gulf

Oil prices edged higher on Friday a week after Iran seized a British tanker in the Gulf, though are continuously offset by a dimming global economic growth outlook amid the US-China trade war. Britain has sent a warship to accompany all British-flagged vessels, an action the government previously said it did not have the resources to do. US Secretary of State Mike Pompeo said in a television interview that he would go to Iran for talks if it was necessary amid the tensions between Tehran and Washington. Brent Crude rose just 0.65% to \$63.46, while the West Texas Intermediate remained steady at the \$56.04 level.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30405 on Sunday morning.

Rates – 28th July, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1216	1.1100	1.1225	1.1125	1.0925	1.1225	1.1210
GBP	1.2507	1.2374	1.2522	1.2380	1.2175	1.2480	1.2437
JPY	107.78	107.69	108.82	108.66	106.70	110.55	107.96
CHF	0.9833	0.9801	0.9946	0.9933	0.9740	1.0135	0.9858